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NATIONAL DAIRY PRODUCTS CORPORATION

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ANNUAL REPORT

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1943

The Annual Meeting of Stockholders is scheduled for April 20, 1944. A proxy statement is expected to be sent to stockholders on or about March 9, 1944 at which time proxies for the Annual Meeting will be requested.

NATIONAL DAIRY PRODUCTS CORPORATION

DIRECTORS

F. J. ANDRE
President, Sheffield Farms Company, Inc., New York

F. J. BAHL
President, The Tri-State Butter Company, Cincinnati

EDGAR N. BRAWNER
President, Chestnut Farms—Chevy Chase Dairy Company, Washington

HENRY W. BREYER, JR.
Director, Breyer Ice Cream Company, Philadelphia

FREDERICK J. BRIDGES
President, Hydrox Corporation, Chicago

JAMES BRUCE
Vice-President

PAUL C. CABOT
President, *State Street Investment Corporation, Boston

BYRON C. FOY
Director, *Chrysler Corporation; At present Lieutenant Colonel, U. S. Army

JOSEPH GILFILLAN
Philadelphia

ROBERT S. GORDON
General Counsel

B. S. HALSEY
Vice-President, Sheffield Farms Company, Inc., New York

H. C. HORNEMAN
President, Sugar Creek Creamery Company, Danville

VERNON F. HOVEY
President, General Ice Cream Corporation, Schenectady

J. L. KRAFT
Chairman of the Board, Kraft Cheese Company, Chicago

JOHN H. KRAFT
President, Kraft Cheese Company, Chicago

B. M. LIDE, JR.
President, St. Louis Dairy Company, St. Louis

ELMER J. MATHER
Vice-President

THOS. H. McINNERNEY
Chairman of the Board

P. P. MILLER
Vice-President, General Ice Cream Corporation, Schenectady

HENDERSON SUPPLEE, JR.
President, Supplee-Wills-Jones Milk Company, Philadelphia

L. A. VAN BOMEL
President

H. C. VON ELM
Vice-Chairman of Board of *Manufacturers Trust Company, New York

SIDNEY J. WEINBERG
Partner, *Goldman, Sachs & Co., New York

H. BURTON WILKERSON
President, Nashville Pure Milk Company, Nashville

Companies named above, except those marked with an asterisk, are divisions of National Dairy Products Corporation.

NATIONAL DAIRY PRODUCTS CORPORATION

EXECUTIVE COMMITTEE

OF THE BOARD OF DIRECTORS

L. A. VAN BOMEL, *Chairman*

F. J. ANDRE
JAMES BRUCE
PAUL C. CABOT
JOSEPH GILFILLAN
J. L. KRAFT or JOHN H. KRAFT, Alternate
THOS. H. MCINNERNEY
ELMER J. MATHER
H. C. VON ELM
SIDNEY J. WEINBERG

•

OPERATING COMMITTEE

L. A. VAN BOMEL, *Chairman*

F. J. ANDRE
EDGAR N. BRAWNER
FREDERICK J. BRIDGES
R. A. BRODESSER
T. K. CARNES
CHRISTIE E. CUDDEBACK
H. C. HORNEMAN
VERNON F. HOVEY
JOHN H. KRAFT
THOS. H. MCINNERNEY
ELMER J. MATHER
CLYDE H. SHAFFER
E. E. STEWART
HENDERSON SUPPLEE, JR.
RAYMOND J. WISE

Members of this committee are executives of National Dairy Products Corporation or subsidiary companies and are appointed by the Board of Directors.

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OFFICERS

THOS. H. MCINNERNEY, *Chairman of the Board*

L. A. VAN BOMEL, *President*

FREDERICK J. BRIDGES . . . . *Vice-President*
T. K. CARNES . . . . . *Vice-President*
ELMER J. MATHER . . . . . *Vice-President*
GEORGE H. RUTHERFORD . . . . . *Treasurer*
REED HARTEL . . . . . *Secretary*
JAMES BRUCE . . . . . *Vice-President*
VERNON F. HOVEY . . . . . *Vice-President*
ROBERT S. GORDON . . . . *General Counsel*
H. P. BROWN . . . . . *Comptroller*
G. W. MCGHEE . . . . . *Assistant Secretary*
A. S. ARONSON . . . . . *Assistant Treasurer*

Transfer Agent
MANUFACTURERS TRUST COMPANY
New York, N. Y.

Registrar
THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, New York, N. Y.

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SULLIVAN & CROMWELL, *Counsel*

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ARTHUR ANDERSEN & CO., *Auditors*

NATIONAL DAIRY PRODUCTS CORPORATION

1943 ANNUAL REPORT TO STOCKHOLDERS

PARALLELING the almost unlimited demand for food to supply the greatest armed force in history and to meet civilian demands resulting from a war economy geared to record making production, National Dairy Products Corporation's volume increased in 1943 to $580,173,000.

Earnings increased to $2.08 per share of common stock, after reserves, compared with $1.95 in 1942. This is 2.24 cents on each dollar of sales, as compared with 2.17 cents in 1942.

Throughout the year, the operations of your Company were motivated by the fact that food is a weapon of war. It is essential material at the fighting front and the home front. Of all foods, none is more indispensable than dairy products.

Civilians sought these products in quantities that were unprecedented before the war, thus reflecting the increased income and nutritional needs of a nation fully employed. To the milk and milk products being consumed in training camps had to be added the vast amounts of transportable dairy foods necessary to conduct invasions of enemy held territory in two hemispheres. Over and above this were the Lend-Lease requirements of our allies and the needs of starving peoples in liberated areas.

PAYMENTS TO FARMERS AND EMPLOYES

OUR largest expenditure was payment to farmers and other suppliers of materials for our products. In 1943 this item amounted to $360,036,000. This compares with $349,814,000 in 1942. Our second largest expenditure was for wages, which increased $5,496,000 from $83,136,000 in 1942 to $88,632,000, despite the fact that our average number of employes decreased from 38,126 in 1942 to 36,281.

To keep our plants functioning efficiently we spent $12,382,000 for repairs and maintenance, compared with $12,237,000 in the previous year. While every effort is being made to extend the life of much equipment that currently is irreplaceable, we also spent $5,099,000 for property, plant and equipment, compared with $8,022,000 in 1942. Depreciation in 1943 amounted to $8,931,000.

Following the announced intention of your directors to make increased payments to stockholders whenever it is justified by the financial position of the Company, the per share dividend was increased to $1 in 1943 from 80 cents in 1942.

FINANCIAL POSITION IMPROVES

OUR outstanding bank loans of $1,757,000 were paid off and we retired $5,616,000 of our funded debt, including $3,000,000 serial debentures which were called during the year. In addition we have called $1,500,000 of serial debentures on April 1, 1944. We purchased $11,197,000 of United States Government short-term securities in addition to those provided for 1943 taxes. The reserve for contingencies was increased by $2,500,000 to a total of $10,000,000.

Goodwill, formerly carried in our consolidated balance sheet at $22,059,000, was written down to $1.

Current assets as of December 31, 1943 were $105,308,000, compared with $91,686,000 a year earlier. Of these assets $29,767,000 were in cash and United States Government short-term securities, representing an increase of $12,740,000 during the year. Our inventories increased only slightly. Current liabilities were $28,298,000, compared with $26,574,000 in 1942, an increase of $1,724,000. Our working capital increased $11,898,000 from $65,112,000 to $77,010,000.

Federal income and excess profits taxes rose appreciably to $29,000,000, compared with $18,500,000 in 1942, and $29,000,000 has been invested in United States Treasury Notes for their payment. This tax liability is the equivalent of $4.63 per share of common stock, compared with $2.95 in

1942. Our total estimated tax expense for 1943, including Federal, State and all other direct taxes, is $36,099,000.

At the back of this report will be found a Ten-Year Comparison of your Company's financial position together with other pertinent data which will prove helpful in tracing the progress of the Company.

The incentive compensation plan covered 1,055 key employes of our operating companies. These employes earned in 1943 under the plan an aggregate of $1,058,000. None received more than 1 1/10 per cent of the total.

ONE-SIXTH OF SALES TO WAR PURPOSES

THE war significance of your Company's operations in 1943 is emphasized by the fact that one sixth of our total sales, or $96,421,000, was for direct war purposes. This was an increase from $67,163,000 in 1942. Such sales represented rations of Army, Navy, Marine, Coast Guard and Maritime personnel here and abroad, supplies for canteens, post exchanges and ships' services which cater to additional wants of service men and women, and Lend-Lease purchases.

These deliveries included 54 million quarts of milk, 8½ million gallons of ice cream, 122 million pounds of cheese, 36 million pounds of butter, 17½ million pounds of other Army and Navy ration spreads, 20 million pounds of margarine, 23 million pounds of powdered milk, 935 thousand cases of evaporated milk, 1½ million gallons of salad dressing, 1½ million cans of hash and 3½ million cans of Tashonka, the latter having been produced for the Russian army.

In addition several special products designed to occupy little shipping space and to withstand the rigors of extreme high and low temperatures were developed.

That the Government considers prices on its purchases of our products for the armed forces reasonable from its viewpoint is indicated by the fact that renegotiation of our 1942 contracts resulted in approval of the original transactions and no refunds were required.

CIVILIAN DEMAND GREATER THAN SUPPLY

ALTHOUGH expanding requirements of the armed forces left insufficient dairy products to meet the abnormal civilian demand, we were able to serve most of our regular customers under the rationing and curtailment restrictions to which many of our products are subject. In this respect, great credit is due consumers and distributors for their splendid cooperation and patience in periods of temporary shortages and interruptions of established services.

Because the lack of products prevented our supplying all the wants of old customers and prohibited us from adding thousands of new ones, our sales to civilians declined slightly to $483,752,000 from 1942's record-breaking total of $495,288,000.

In addition to the rationing restrictions to which cheese and butter are subject, available supplies of these products for civilian consumption were less than adequate. American cheddar cheese, for instance, was in such demand by the Government that only 49 per cent of the supply was available for sales through regular channels. Butter was purchased in such large quantities by the Government that there was left for public sale only 72 per cent of the year's volume.

Although ice cream has received its long-due recognition as an essential food by both nutritionists and Federal food authorities, its manufacture in 1943 was limited by Government order restricting the total amount of milk solids that could be used each month to 65 per cent of the quantity used during the corresponding month in the period from December, 1941, to November, 1942.

Conforming with the Government order and

cooperating with other units in the dairy industry to eliminate the necessity for coupon rationing of fresh milk and cream, we participated in a milk and cream conservation program. Under this plan, total deliveries of milk and cream by each company in any one month are based on the amount sold by that company during June, 1943. So far this plan, designed to stabilize rather than reduce consumption, is working out satisfactorily, except in a few markets where war activity has brought sizable increases in the population since June, 1943. In these cases, an effort is being made to make equitable adjustments in the quotas.

Our margarine production increased steadily during the year, and Parkay, introduced only four years ago, already is one of the largest selling brands.

Items other than strictly dairy products are assuming importance in your Company's line. For many years we have marketed in a limited sphere the fine sausage produced by our Deerfoot Farms Division. It is our plan to increase our sausage output and as pork supplies become available also to aggressively merchandise Deerfoot ham and bacon on what will ultimately be a broader scale.

PROMOTION AND ADVERTISING ACTIVITIES

COGNIZANT of the many problems faced by our customers as a result of rationing and allocation of our products, the staffs of our experimental kitchens, the principal ones being Kraft in Chicago and Sealtest in New York, turned their attention to assisting women charged with household responsibilities to make the most of available dairy foods. This work is performing a highly useful function. It not only increases goodwill toward your Company at this time, but as a result we may expect a greater understanding of the utilization and nutritional benefits of dairy products that will add to our sales opportunities in the future.

In order that the public, to which all business must look for the support necessary for continuous profitable operation, could be kept adequately informed of our aims and objectives, as well as our present products and services, we continued through the year the public information advertising program started in 1942 and the major part of our product advertising.

Public interest in our three national radio programs—The Kraft Music Hall, The Sealtest Village Store and The Great Gildersleeve — increased to such an extent that each now ranks near the top in listener audience rating. All of our advertising campaigns served the war effort by carrying to millions of readers and listeners appeals to purchase war bonds and information sponsored by the Government.

The only changes which have occurred in the anti-trust litigation referred to in our last annual report are that the brick cheese case at Chicago was tried before a jury, ending in a complete victory and acquittal of all of the defendants, and that the wholesale milk case in New York was settled on the basis of nolo contendere pleas and the payment of small fines, thereby saving the disproportionate expenditure of time and money which a trial would have cost.

RESEARCH AND DEVELOPMENT MOVES FORWARD

AMERICA'S children grow stronger and more healthy with each succeeding generation. One good reason for this is that the food industry steadily learns more about food and finds better ways to process and distribute it. But there is still much to learn; more to know about the nature of food itself; more to be found out about its production, handling and packaging; more to discover about utilization of its by-products.

Research into these fundamental problems not only benefits the consumer and the farmer — who is the principal producer of food—but pays tangible dividends to the business which initiates and supports it.

During the year, your Company continued and

expanded the program of research in which it has long been engaged. This program, well under way, is concerned with many fields of research. One is investigation into the nutritional and health values of food. The attention of the nation as a whole is turning increasingly toward nutrition and toward the basic foodstuffs on which nutrition depends. We are probing further and further into the potentialities of dairy foods, with a view to translating that knowledge into the new and better products that the public has a right to expect in the future, and into new aids for science in its battle against disease, malnutrition and pain.

In this direction we increased in 1943 our sales of refined milk sugar, which has been found of great value in the manufacture of penicillin, new weapon in the fight upon infection. Refined milk sugar increases the output of penicillin, which is so urgently needed in all theaters in which our men are fighting.

Another phase of our research is focused upon the finding of new uses for the residual products of the dairy industry. Recent results of this work, which creates new products for your Company and expanded markets for the farmer's milk, include Aralac, our textile fibre, which already is widely used to improve the quality of felt hats and clothing, and scientific animal and poultry feeds which are helping to produce better poultry, cattle and hogs.

Our chemical products research has progressed to the point where a pilot plant is in operation and we have supplied samples of methyl lactate and methyl acrylate to companies designated by the Government and to other potential users as starting material for the manufacture of polymers in the plastics field. The future of this development will hinge upon the results of further research. It is too early to forecast the eventual importance of this project. We believe it promising.

Fermentation of whey to increase the yield of riboflavin and other water soluble vitamins has graduated from the laboratory and soon we shall be producing on a commercial scale.

Other interesting accomplishments of our laboratories were the making of vinegar from whey, development of several casein derivatives—Peptiicase, which is a pre-digested product used as a culture medium in the development of beneficent bacteria, and also in treatment for protein deficiencies; Hy-Case, a predigested protein to improve the flavor of meat and foods such as soups and also as a direct nutrient; New Process Casein, meeting rapid acceptance in paper sizing and leather finishing, and for the manufacture of adhesives, plastics, rubber, paints and certain food products.

Working with our research staff are committees of men from our technical and engineering staffs who are ready to translate laboratory developments into pilot and commercial scale processing and manufacturing plants. These committees also are studying present operations in all of our product fields so that as materials are again available for the building of new plants or the redesigning of old, improvements which we have been unable to make since the outbreak of the war may be made to bring increased efficiency in our activities.

In addition to National Dairy research, which will be broadened and intensified as additional seasoned chemists, bacteriologists and other technicians become available after the war, we also are cooperating in the underwriting of The Nutrition Foundation, Inc., which is working to broaden the basic knowledge of the science of nutrition. As progress is made by the Foundation, we shall benefit along with other food companies. We are also supporting research activities in universities and colleges.

EMPLOYES OF THE COMPANY ALERT TO PROBLEMS

DURING the year, 2,080 more National Dairy men and women entered the armed services, and 12 more gave their lives for their country, in-

creasing the total number on our service flag to 6,366, and the gold stars to 21. Their service and sacrifice is an inspiration to our entire organization.

The National Dairy army of employes at home has served valiantly. Older employes have done their best to carry on the traditions of our many operating companies and have been most helpful in the training of new employes who have joined our organization. The way in which our employes, both old and new, met the problems of 1943 is a guarantee to our customers and to our stockholders that whatever happens in 1944 will find them alert to their responsibilities as members of an essential industry.

That we have not so far faced serious breakdowns in our processing or delivery equipment is due in large part to the splendid cooperation of employes in carrying out conservation programs which were started as safeguards long before Pearl Harbor.

MEMORIAL TO EDWARD E. RIECK

THE members of the Board of Directors record with sorrow and regret the death on January 10, 1944, of their friend and associate Edward E. Rieck, who was a member of the Board for the past twenty years and its Chairman during the first two years of the Corporation's existence. A pioneer in the dairy industry, Mr. Rieck contributed over half a century of fruitful service to it. His was a leading role in its development into one of the major industries of the United States.

IN PROSPECT

THAT the demand for protective foods, such as dairy products, will be even greater in 1944 than in 1943 seems inevitable. This applies to all three major markets—civilian, military and foreign. As our forces overseas are increased, logistics dictate that huge movements of food must follow. It is a military requirement that a soldier's reserve ration be drastically increased as he leaves this continent. As our enemies retreat, leaving ravaged farm lands and starving peoples in their wake, it is apparent that the demand upon the food industry in the United States will be severe.

The extent to which the demands of our armed forces, the requirements of our consumers and the needs of other nations can be met will again depend in the last analysis upon the ability of the American farmer to produce enough for all in the face of manpower shortages and increasing lack of equipment. While the splendid record made upon the farmlands under adverse conditions in the past two years is encouraging, there is no denying the fact that every assistance possible must be given farmers in the year ahead.

The management has confidence in the long-range outlook. Our business is founded upon products which the war has reemphasized as among the most important of the body-building, energy-sustaining, health-giving foods. The greater use of milk, cheese and ice cream by the armed services has developed in millions of young men and women a taste for these products which should add appreciably to our market after the war.

Looking ahead, your Company is fortunate in that the dairy industry has no major reconversion problem. We produce for military requirements and civilian consumers with the same equipment and provide essentially the same services to both, the only major changes being in packaging.

Food is no less important in peace than in war. And while the industrial reconversion period and the era of demobilization of the services that will follow undoubtedly will be characterized by market dislocations, we have every reason to believe that there will be an increasing acceptance of our products in all localities.

By Order of the Board of Directors:

THOS. H. MCINNERNEY, *Chairman*

L. A. VAN BOMEL, *President*

New York, N. Y.
March 1, 1944.

NATIONAL DAIRY PRODUCTS CORPORATION
AND DOMESTIC SUBSIDIARY COMPANIES

Consolidated Balance Sheets

ASSETS	*December 31, 1943*		*December 31, 1942*	
CURRENT ASSETS:				
Cash		$ 18,569,660		$ 17,027,644
U. S. Government securities		11,197,660		None
Receivables—				
Notes receivable	$ 291,156		$ 489,915	
Accounts receivable	25,516,790		25,780,451	
	$ 25,807,946		$ 26,270,366	
Less—Reserves for doubtful notes and accounts	2,935,042	22,872,904	2,442,185	23,828,181
Inventories, at cost (generally average cost) or market, whichever is lower—				
Products and materials	$ 42,909,674		$ 42,437,807	
Supplies	9,341,969	52,251,643	7,972,098	50,409,905
Cash surrender value of life insurance		416,145		420,966
Total Current Assets		$105,308,012		$ 91,686,696
INVESTMENTS, ETC.:				
Miscellaneous investments, less reserve	$ 1,026,727		$ 1,018,267	
Cash on deposit with Debenture Fiscal Agent	106		17,166	
Domestic subsidiaries not consolidated	20,272		191,272	
Deposits with State Commissions, etc.	729,161		773,097	
Cabinet, fountain and equipment contracts, less reserve	277,428		800,985	
Loans to employes, less reserve	169,692		258,236	
Other notes and accounts receivable, less reserve	617,947	2,841,333	922,356	3,981,379
FOREIGN SUBSIDIARIES:				
Investments in and advances to—				
Canadian subsidiaries	$ 2,593,902		$ 2,854,174	
English, Argentine and Australian subsidiaries	4,006,392		4,315,393	
Continental European subsidiaries	1		1	
	$ 6,600,295		$ 7,169,568	
Less—Reserve for foreign investments and advances	3,060,983	3,539,312	2,739,633	4,429,935
PROPERTY, PLANT AND EQUIPMENT (Stated at cost, or as to certain properties at sound values as appraised as of dates of acquisition, plus additions at cost, less retirements and certain adjustments):				
Land	$ 14,102,671		$ 14,630,083	
Buildings, machinery and equipment	133,967,041		136,324,890	
	$148,069,712		$150,954,973	
Less—Reserves for depreciation	55,881,229	92,188,483	53,568,154	97,386,819
PREPAID AND DEFERRED ITEMS		2,021,520		1,051,138
GOODWILL		1		22,059,854
		$205,898,661		$220,595,821

(See Notes to Consolidated Financial Statements, page 12)

NATIONAL DAIRY PRODUCTS CORPORATION
AND DOMESTIC SUBSIDIARY COMPANIES

Consolidated Balance Sheets

LIABILITIES	*December 31, 1943*		*December 31, 1942*	
CURRENT LIABILITIES:				
Notes payable		$ None		$ 1,757,012
Serial Debentures maturing within one year		1,500,000		1,500,000
Accounts payable		20,292,059		17,698,642
Accrued liabilities		6,505,940		5,618,443
Provision for Federal income and excess profits taxes	$ 29,000,000		$ 18,500,000	
Less—U.S. Treasury Notes, Tax Series C	29,000,000	None	18,500,000	None
Total Current Liabilities		$ 28,297,999		$ 26,574,097
FUNDED DEBT:				
Serial Debentures (less $1,500,000 carried under current liabilities above) maturing semi-annually in the amount of $750,000 on June 1 and December 1 in each of the years 1945 and 1948-50	$ 6,000,000		$ 10,500,000	
3¼% Debentures due 1960 (semi-annual purchase fund requirements $275,000 (minimum) through December 1, 1950, and $825,000 thereafter through June 1, 1960)	52,800,000	58,800,000	53,916,000	64,416,000
MINORITY STOCKHOLDERS' INTEREST IN SUBSIDIARY COMPANIES		321,401		297,823
RESERVES FOR:				
Insurance	$ 612,846		$ 828,029	
Prior years' Federal and States taxes, etc.	6,041,241		3,888,409	
Contingencies	10,000,000	16,654,087	7,500,000	12,216,438
CAPITAL STOCK AND SURPLUS:				
Common stock—				
Authorized—8,000,000 shares without par value				
Issued—6,255,247 shares at stated value	$ 51,266,676		$ 51,266,676	
Capital surplus, per statement attached	None		2,230,338	
Earned surplus, per statement attached	50,558,498	101,825,174	63,594,449	117,091,463
		$205,898,661		$220,595,821

(See Notes to Consolidated Financial Statements, page 12)

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC SUBSIDIARY COMPANIES

Statements of Consolidated Earned Surplus and Capital Surplus

	Year Ended December 31, 1943		*Year Ended December 31, 1942*	
EARNED SURPLUS				
Earned surplus, at beginning of year	$63,594,449		$55,856,805	
Adjustments to state goodwill at nominal value of $1 (less portion charged to capital surplus), as authorized by Board of Directors	19,829,515		None	
	$43,764,934		$55,856,805	
Balance from statements of consolidated profit and loss	13,048,811	$56,813,745	12,221,852	$68,078,657
Dividends paid on common stock—$1.00 and 80¢ per share in 1943 and 1942, respectively		6,255,247		5,004,198
		$50,558,498		$63,074,459
Add:				
Restoration of property written down in 1939		None		519,990
Dividends received from foreign subsidiaries	$ 321,350		$ 782,899	
Less—Additions to reserve for foreign investments and advances	321,350	None	782,899	None
Earned surplus, at end of year, per balance sheets		$50,558,498		$63,594,449
CAPITAL SURPLUS				
Capital surplus, at beginning of year		$ 2,230,338		$ 2,155,045
Add—Adjustments with respect to acquisition of minority interest and goodwill purchased		None		75,293
Less—Portion of adjustments to state goodwill at nominal value of $1 (see earned surplus), as authorized by Board of Directors		2,230,338		None
Capital surplus, at end of year, per balance sheets		$ None		$ 2,230,338

(See Notes to Consolidated Financial Statements, page 12)

NATIONAL DAIRY PRODUCTS CORPORATION
AND DOMESTIC SUBSIDIARY COMPANIES
Statements of Consolidated Profit and Loss

	Year Ended December 31, 1943		*Year Ended December 31, 1942*	
INCOME:				
Net sales	$580,173,068		$562,451,639	
Other income	1,311,023	$581,484,091	1,305,767	$563,757,406
INCOME DEDUCTIONS:				
Cost of products	$436,738,842		$425,808,285	
Delivery expense	56,991,060		57,111,265	
Selling expense	22,786,186		26,429,941	
General and administrative expense	16,931,224		15,821,771	
Cost of past service retirement annuities	538,970		416,153	
Net loss on disposition of capital assets	231,738		1,123,158	
Miscellaneous charges	795,851		469,053	
Interest on funded debt	1,921,409		1,955,928	
Provision for Federal taxes on income	29,000,000	565,935,280	18,500,000	547,635,554
Net profit (before provision for contingencies)		$ 15,548,811		$ 16,121,852
Provision for contingencies		2,500,000		3,900,000
Balance transferred to earned surplus		$ 13,048,811		$ 12,221,852

(See Notes to Consolidated Financial Statements, page 12)

COMPTROLLER'S CERTIFICATE

The foregoing financial statements have been prepared under my direction from the companies' books kept under my supervision and, to the best of my knowledge and belief, fairly state the consolidated position of National Dairy Products Corporation and consolidated domestic subsidiaries as of December 31, 1943 and the operations for the year ended on that date.

New York, N. Y., March 1, 1944.

H. P. BROWN,
Comptroller.

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements . . . December 31, 1943

(1) Provision for Federal taxes on income includes normal tax and surtax of $7,400,000 and $10,400,000 and excess profits tax of $21,600,000 and $8,100,000 (after deduction of 10% credit of $2,400,000 and $900,000 for debt retirement) for the years 1943 and 1942, respectively.

(2) Provision for depreciation charged to costs and expenses for the years 1943 and 1942 aggregated $8,931,094 and $9,233,488, respectively. Repairs and maintenance (including replacement of milk bottles) for such years amounted to $12,382,703 and $12,237,007.

(3) The Corporation's Retirement Annuity Plan provides for the establishment of retirement annuities for eligible employes receiving fixed compensation exceeding $3,000 per annum. Employes electing to participate in the plan contribute currently with the companies. The companies' share is charged currently to Profit and Loss as paid. The cost of past service retirement annuities is borne by the companies and is expected to be paid in installments over a period of approximately 20 years or less from the effective date of the plan, March 1, 1941. The Corporation has the privilege of paying two years' cost for past service annuities in any year, and this right was exercised in 1943 in full. It is estimated that the aggregate cost of past service annuities not purchased at December 31, 1943 would approximate $3,950,000. The Corporation reserves the right to change or discontinue the plan at any time.

(4) The Indenture under which the funded debt of the Corporation is outstanding provides in substance that cash dividends may be paid only if thereafter (a) the balance of consolidated earned surplus (to which may be added back the adjustments of $19,829,515 made in 1943 to state at $1 the goodwill acquired prior to September 1, 1940) exceeds $35,000,000 (which sum is subject to adjustment in certain circumstances, including a reduction of $500,000 for each reduction of $1,000,000 in consolidated funded indebtedness below $70,000,000), and (b) consolidated tangible assets after deducting consolidated liabilities other than consolidated funded indebtedness shall be equal to at least 1¾ times the consolidated funded indebtedness. Certain of the terms used are defined in the Indenture.

(5) All domestic subsidiary companies have been included in the accompanying consolidated financial statements (except two minor companies in which not more than fifty-one per cent of the capital stock is owned), and all foreign subsidiaries have been excluded from the consolidated financial statements. The net sales and the Corporation's equity in net profits for the year ended December 31, 1943, of subsidiaries located in Canada, England, Australia and Argentina aggregated $25,178,770 and $701,168, respectively (translated into terms of U. S. dollars at current rates of exchange on December 31, 1943). Cash dividends were received in 1943 from an English subsidiary in the amount of $321,350 and an amount equivalent thereto has been added to the Reserve for Foreign Investments and Advances.

(6) The Price Adjustment Board of the War Department has reviewed the renegotiable sales and related profits for the year 1942 and the Corporation has been advised that no refund of the profits on such sales was required. Although the renegotiable sales for the year 1943 were in excess of those for the year 1942, the management believes that the profits on such sales were not excessive and that no liability for a refund exists.

(7) Effective as of January 1, 1943 and as approved by the Board of Directors, goodwill, heretofore stated at $22,059,854, was reduced in the consolidated balance sheet to the nominal amount $1 by charges to capital surplus (to the extent thereof) and to earned surplus. All goodwill acquired in the year 1943 (amounting to $386,000) was written off to profit and loss.

(8) During 1943 the Corporation established a Reserve for Contingencies of $10,000,000 by an appropriation from profits in 1943 of $2,500,000 and from surplus of $7,500,000. This latter amount is offset by reversals by subsidiaries of Reserves for Possible Future Inventory Adjustments and Other Contingencies appropriated in 1941 and 1942. The Reserve for Contingencies of $10,000,000 is intended to cover possible extraordinary charges that may arise during the war or in the post-war period affecting the consolidated companies. In the event that the consolidated companies have such charges to profits, an amount of the Reserve for Contingencies equal to such charges will be available for restoration to earned surplus through addition to the net profits for the year affected.

(9) Contingent liabilities in respect of pending lawsuits and other claims are not believed by the companies to involve any substantial liability not already provided for in the Consolidated Balance Sheet.

ARTHUR ANDERSEN & Co.

AUDITORS' CERTIFICATE

To the Board of Directors and Stockholders of

National Dairy Products Corporation:

We have examined the consolidated balance sheet of National Dairy Products Corporation (a Delaware corporation) and domestic subsidiary companies as of December 31, 1943, and the statements of consolidated profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We had previously made a similar examination for the year 1942.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and surplus present fairly the financial position of National Dairy Products Corporation and domestic subsidiary companies consolidated at December 31, 1943, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis which, except for the change in stating goodwill as indicated in Note 7 to the accompanying financial statements, which we approve, was consistent with that of the preceding year.

Arthur Andersen & Co

New York, N. Y.,
March 1, 1944.

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC SUBSIDIARY COMPANIES

Condensed Ten-Year Statement of Consolidated Assets and Liabilities

(All amounts are expressed in thousands)

	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934
WORKING CAPITAL:										
CURRENT ASSETS										
Cash and marketable securities	$ 29,767	$ 17,028	$ 15,016	$ 16,916	$ 16,727	$ 16,908	$ 19,281	$ 17,778	$ 22,265	$ 21,897
Notes and accounts receivable, net	22,873	23,828	26,807	17,592	17,803	17,051	16,630	16,017	14,846	15,055
Inventories	52,252	50,410	55,338	33,798	32,113	30,518	28,505	30,759	21,583	19,524
Surrender value of life insurance	416	420	405	393	364	348	332	300	235	207
Total Current Assets	$105,308	$ 91,686	$ 97,566	$ 68,699	$ 67,007	$ 64,825	$ 64,748	$ 64,854	$ 58,929	$ 56,683
CURRENT LIABILITIES										
Bank loans	$ 0	$ 1,757	$ 13,475	$ 0	$ 0	$ 5,864	$ 8,100	$ 4,695	$ 0	$ 0
Serial Debentures	1,500	1,500	1,500	1,500	0	0	0	0	0	0
Accounts payable and accruals	26,798	23,317	22,859	17,888	17,944	15,991	18,700	18,399	17,364	16,525
Provision for Federal income tax	29,000	18,500	9,676	4,580	3,299	3,094	2,560	2,566	1,886	1,619
U. S. Treasury Notes	*29,000*	*18,500*	0	0	0	0	0	0	0	0
Total Current Liabilities	$ 28,298	$ 26,574	$ 47,510	$ 23,968	$ 21,243	$ 24,949	$ 29,360	$ 25,660	$ 19,250	$ 18,144
Working Capital	$ 77,010	$ 65,112	$ 50,056	$ 44,731	$ 45,764	$ 39,876	$ 35,388	$ 39,194	$ 39,679	$ 38,539
OTHER ASSETS, LESS RESERVES:										
Property, plant and equipment	$148,069	$150,955	$151,887	$145,208	$151,317	$163,201	$167,362	$163,535	$161,848	$162,226
Less—Reserves for depreciation	55,881	53,568	51,312	50,246	53,637	57,524	58,957	57,497	57,961	57,918
Property, net	$ 92,188	$ 97,387	$100,575	$ 94,962	$ 97,680	$105,677	$108,405	$106,038	$103,887	$104,308
Investments, advances, etc.	6,380	8,411	10,239	11,269	5,851	5,954	6,291	6,050	5,844	6,344
Deferred charges	2,022	1,052	750	868	807	877	971	895	959	649
Total Other Assets	$100,590	$106,850	$111,564	$107,099	$104,338	$112,508	$115,667	$112,983	$110,690	$111,301
Less—Reserves	16,654	12,216	7,601	2,998	3,074	2,762	2,636	2,321	1,816	1,205
Other Assets, less reserves	$ 83,936	$ 94,634	$103,963	$104,101	$101,264	$109,746	$113,031	$110,662	$108,874	$110,096
Tangible Assets, net	$160,946	$159,746	$154,019	$148,832	$147,028	$149,622	$148,419	$149,856	$148,553	$148,635
FUNDED DEBT	$ 58,800	$ 64,416	$ 66,450	$ 68,500	$ 56,899	$ 60,875	$ 64,039	$ 67,445	$ 67,070	$ 68,214
PREFERRED STOCK	0	0	0	0	9,871	9,871	9,871	9,871	9,871	9,871
MINORITY INTEREST	321	298	350	336	894	915	920	932	1,096	1,094
	$ 59,121	$ 64,714	$ 66,800	$ 68,836	$ 67,664	$ 71,661	$ 74,830	$ 78,248	$ 78,037	$ 79,179
Book Value of Common Stock	$101,825	$ 95,032	$ 87,219	$ 79,996	$ 79,364	$ 77,961	$ 73,589	$ 71,608	$ 70,516	$ 69,456

NOTES:

(1) Prior to 1940 all wholly-owned foreign subsidiaries are consolidated except in 1939 when German subsidiaries are not consolidated.

(2) Treasury stock held in 1939 and 1940 included in "Investment, advances, etc."

(3) Goodwill, written down in 1943 to the nominal value of $1, has been eliminated from the above statement.

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC SUBSIDIARY COMPANIES

Condensed Ten-Year Statement of Consolidated Profit and Loss

(All amounts are expressed in thousands, except per share and other statistics)

	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934
INCOME:										
Net sales	$580,173	$562,451	$431,049	$347,410	$336,694	$334,355	$351,015	$329,171	$290,441	$267,414
Other income	1,311	1,306	1,249	935	1,026	1,164	1,127	1,198	995	1,345
Total income	$581,484	$563,757	$432,298	$348,345	$337,720	$335,519	$352,142	$330,369	$291,436	$268,759
INCOME DEDUCTIONS:										
Cost of products	$436,739	$425,808	$310,274	$239,090	$225,838	$228,585	$245,781	$227,083	$197,034	$179,481
Delivery expense	56,991	57,111	53,321	52,189	52,857	52,820	53,497	49,043	47,393	46,007
Selling expense	22,786	26,430	26,598	25,922	26,159	24,192	24,942	22,651	19,788	19,520
General and administrative expense	16,931	15,822	14,151	12,918	13,620	12,858	12,572	12,218	11,406	10,485
Miscellaneous	1,567	2,008	1,091	965	1,181	801	524	1,021	1,276	1,684
Interest on funded debt	1,921	1,956	1,978	2,104	2,238	2,335	2,452	2,921	3,534	3,626
Provision for Federal income tax	29,000	18,500	8,950	4,063	2,793	2,602	2,083	2,150	1,667	1,404
Provision for contingencies	2,500	3,900	3,600	0	0	0	0	0	0	0
Total income deductions	$568,435	$551,535	$419,963	$337,251	$324,686	$324,193	$341,851	$317,087	$282,098	$262,207
Amount to earned surplus	$ 13,049	$ 12,222	$ 12,335	$ 11,094	$ 13,034	$ 11,326	$ 10,291	$ 13,282	$ 9,338	$ 6,552
Less—Preferred dividends	0	0	0	691	691	691	691	691	691	692
Balance	$ 13,049	$ 12,222	$ 12,335	$ 10,403	$ 12,343	$ 10,635	$ 9,600	$ 12,591	$ 8,647	$ 5,860
PAYMENTS:										
Dividends	$ 6,255	$ 5,004	$ 5,004	$ 5,004	$ 5,004	$ 6,255	$ 7,506	$ 7,506	$ 7,505	$ 7,505
Wages	88,632	83,136	72,992	68,098	66,328	64,996	65,889	61,534	57,851	55,911
Taxes	36,099	25,453	15,696	9,984	8,473	8,036	7,011	5,770	4,300	4,155
PER SHARE STATISTICS:										
Earnings	$ 2.08	$ 1.95	$ 1.97	$ 1.66	$ 1.97	$ 1.69	$ 1.53	$ 2.01	$ 1.38	$ .93
Dividends	1.00	.80	.80	.80	.80	1.00	1.20	1.20	1.20	1.20
Taxes	5.77	4.07	2.51	1.60	1.35	1.28	1.12	.93	.69	.66
OTHER STATISTICS:										
Number of—										
Stockholders	66,889	68,798	68,820	69,264	70,078	73,723	73,187	69,963	72,028	71,606
Employes	36,281	38,126	36,697	35,565	36,543	35,911	37,227	36,256	35,146	34,776

NOTES:

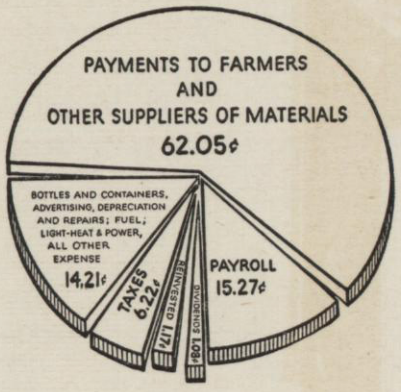
(1) The figures for the years 1934 through 1937 have been rearranged to conform with the arrangement for subsequent years.

(2) Prior to 1940 all wholly-owned foreign subsidiaries are consolidated except in 1939 when German subsidiaries are not consolidated.

NATIONAL DAIRY PRODUCTS CORPORATION

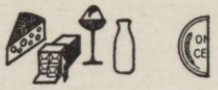
Dedicated to the wider use and better understanding of dairy products as human food . . . as a base for the development of new products and materials . . . as a source of health and enduring progress on the farms and in the towns and cities of America.

HOW OUR SALES DOLLAR WAS DIVIDED



INCREASE IN RETAIL PRICE OF DAIRY PRODUCTS IN 1943 COMPARED WITH OTHER FOODS

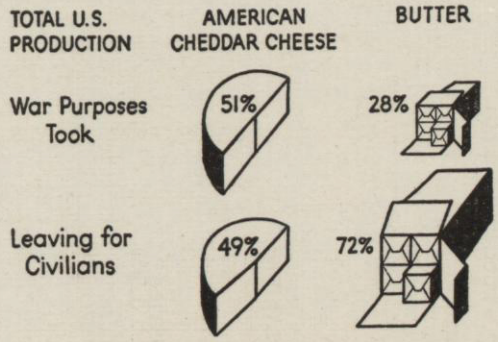
Average all Dairy Products up one-half of one per cent



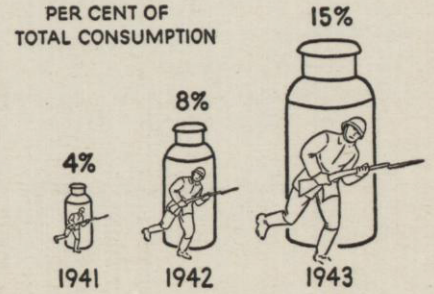
Average 58 Combined Foods up 5 per cent

Retail prices are 51-city averages as published by The United States Bureau of Labor Statistics.

WHY CHEESE AND BUTTER WERE HARD TO GET IN 1943



INCREASE IN USE OF DAIRY PRODUCTS FOR DIRECT WAR PURPOSES



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